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Headquarters, U.S. Army
Industrial Operations Command
Rock Island, IL 61299-6000 **16 Jul 96**

Management

CONTRACT SPECIALIST GUIDE TO THE VALUE ENGINEERING PROGRAM

Applicability. This regulation applies to all Headquarters, U.S. Army Industrial Operations Command (IOC) elements and their subordinate installations.

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Proponent. The proponent is the Resource Management Center. Users are invited to send comments and suggested improvements to Commander, HQ IOC, ATTN: AMSIO-RMV, Rock Island, IL 61299-6000, E-mail amsio-rmv@ioc.army.mil.

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Supersession notice. *This pamphlet supersedes AMCCOMP 5-8, 23 Apr 93.

FOR THE COMMANDER:

//signed//
Official: **JESSE A. ESLICK**
Deputy Chief of Staff
for Resource Management

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1. **Introduction.**

a. The objective of the Department of Defense (DOD) Value Engineering (VE) Program is to motivate the defense contractors to practice VE and to exercise the VE provisions in their contracts by submitting Value Engineering Change Proposals (VECPs). The incentives are the monetary amounts they receive from a share of the cost savings resulting from VE changes to their contracts.

b. The effectiveness of a contractor's VECP is dependent upon the knowledge, understanding, and care applied to its preparation, processing, and settlement techniques. The purpose of this guide is to provide information and suggestions that contribute to the effective management, negotiation, and settlement of VECPs. It is designed to answer procurement related questions concerning the What - Why - Where - Who - and - How of contractual VE. It is not intended to make you an expert on VE principles or techniques, but to encourage and assist you in understanding the VE process and to provide proper guidance for your independent handling of routine VECPs. (See Appendix A for helpful abbreviations and Appendix B for a VECP flow chart.)

c. You can obtain additional guidance from several sources. The most important is the VE clause in the applicable contract or the Federal Acquisition Regulation (FAR) part 52.248.1 as appropriate. Personal assistance may be obtained from the VE Office, HQ, IOC, ATTN: AMSIO-RMV, Rock Island, IL 61299-6000, DSN 793-3470, or visit building 390, basement.

2. **Explanation of Terms.**

a. Instant Contract. Contract under which a VECP was submitted and approved.

b. Concurrent Contract. Contract(s) that are definitized and ongoing (other than the instant contract) at the time the VECP is accepted.

c. Future Contract. Contract(s) awarded after VECP approval that fall within the sharing period. If the instant contract is a multi-year contract, all quantities funded after VECP acceptance are considered future.

d. Royalty Base. Establishment of a unit savings for payment of royalties for items incorporating the VECP on future procurements.

e. Royalty Period/Sharing Period. Normally 3 years after acceptance of the first unit incorporating the VECP or until the last scheduled delivery date of an end item affected by the VECP under the instant contract, whichever is later.

f. Contractor' Development and Implementation Costs. Those costs which the contractor incurred specifically in the development, testing, preparation, and submission of the VECP, and the costs to make the contractual changes required by Government acceptance of a VECP.

g. Government Cost. Those agency costs that result directly from developing and implementing the VECP; e.g., test hardware, technical evaluation of failures, engineering services, and any net increases in the cost of testing, operations maintenance, and logistics support. They do not include the normal administrative costs of processing the VECP.

h. Negative Instant Contract Savings. The acceptance of the VECP results in a reduction in the instant contract of actual unit cost, an excess of contractor's development and implementation costs as compared to the unit cost reduction multiplied by the number of units affected, and a consequent equitable adjustment increasing the instant contract price.

i. Net Acquisition Savings. Total acquisition savings, including instant, concurrent, and future contract savings, less Government costs.

j. Types of Savings.

(1) Acquisition Savings are those that readily ensue under the instant and concurrent contracts plus those derived from future contracts over the sharing period.

(2) Collateral Savings are those documented measurable net reductions in costs of operation, maintenance, and logistics and Government furnished property (GFP) for a typical year of use (noncontractual).

k. Unit. The item or task to which the parties agree the VECP shall apply.

l. Unit Cost Reduction. The amount of the decrease in unit cost of performance (without deducting any development or implementation costs and, for future contracts, with adjustments for learning or change in quantities, resulting from using the VECP). On service contracts, the unit cost reduction is equal to the costs per hour multiplied by the number of hours per line item task saved by the VECP.

m. Value Engineering Incentives (VEI). Contract features which provide for a sharing of the savings between parties. Contractor participation is voluntary.

n. Value Engineering Program Requirements (VEPR). Contract provisions which obligate the contractor to perform effort and share in the savings that ensue.

o. Complete VECP.

(1) Format shall be in accordance with MIL-STD 973 when submitting Engineering Change Proposals (ECPs). If Form 1692 is used, the justification code in block 6 should be 'V', and the following notation should be at the top of the page, 'VALUE ENGINEERING CHANGE PURSUANT TO CONTRACT CLAUSE'.

(2) Content, at a minimum, shall satisfy the documentation requirements of the VE clause of the contract.

p. VECP. A proposal that:

(1) Requires a change to the instant contract to implement.

(2) Results in reducing the overall projected cost to the agency without impairing essential functions or characteristics, providing that it does not involve a change in deliverable quantities or in research and development quantities or test quantities due solely to results of previous testing under the instant contract.

3. <u>What Is VE?</u>

a. Value Engineering is a systematic and creative effort that analyzes the function of items or systems to ensure required functions are achieved at the lowest possible overall cost. It is distinctly different from simple cost reduction techniques that merely seek to lessen the cost of a function whose continuing need is largely taken for granted.

b. Overall cost includes the cost of acquisition, operation, and support of an end item or system. Value Engineering is performed to eliminate or modify any element that contributes to the overall cost that is not necessary for needed performance, quality, maintainability, reliability, or interchangeability.

c. Without VE, if a contractor proposed the elimination or modification of requirements in excess of actual needs, the Government would take all the savings. With VE, if a contractor proposes the elimination or modification of requirements in excess of actual needs, the Government shares the savings with the contractor.

4. <u>The VECP: What Is It?</u>

a. Within DOD, a VECP is a proposal submitted by a contractor to the Government in accordance with the VE provisions in the contract. It proposes a change which, if accepted and implemented, provides an eventual, overall cost savings to the Government. A VECP may be a change which updates an existing design to the current state-of-the-art, simplifies complex material by modifying/eliminating components, or updates specification/drawings providing improved data for future procurements. The VE provision in a contract allows the contractor to share substantially in the savings which accrue from implementing the change. In other words, the VECP provides the means to lower defense procurement costs while increasing the contractor's rate of return on investment. Thus, the VECP becomes both a contractor and a Government managing tool.

b. In order to qualify as a VECP so that a savings can be shared, the

proposed change must meet two primary requirements.

(1) It must require modification to the contract under which it is submitted.

(2) It must provide an overall cost savings to the Government if accepted and implemented.

5. <u>Types of VE Provisions in DOD Contracts.</u> The basic VEI provision will be in most contracts for supplies and services when the contract price exceeds $100,000. The FAR provided some exceptions where the VEI clause may be excluded. When the VEI clause is in the contract, no action is required by the contractor; participation is voluntary. However, when the contractor does participate in the VEI program by originating and submitting VECPs, they will be rewarded for their ideas, if they are adopted by the procuring activity. The percentage sharing rate the contractor receives will be specified on the FAR and will depend on the type of contract. In addition to the basic VEI clause, the FAR contains alternative provisions that allow the procuring contracting officer (PCO) to incorporate into a contract a mandatory VE activity. This is known as the Value Engineering Program Requirement (VEPR) and is a separately priced line item in the contract. The VEPR will specify a certain level of VE activity and the portion(s) of the contract work scope to which it applies. Usually, the VEPR provisions are used to identify certain high-cost items or systems, to be subjected to VE in an attempt to reduce the cost of those items or systems. The sharing arrangements for approved VECPs (which are originated under VEPR provisions) are less than the share provided for voluntary VECPs under the basic VEI provisions. In some circumstances, a contract may contain both VEI and VEPR provisions. If the VEPR is directed to well defined performance areas, then the basic VEI clause can be used to cover VECPs that are submitted on items not covered by the VEPR performance area. For VECPs submitted on contracts containing both VEI and VEPR, the POC decides if a particular VECP applies to the VEI or VEPR provisions, and this decision is not subject to dispute.

6. <u>Sharing of VECP Savings.</u> DOD has been encouraging submission of VECPs since the Armed Services Procurement Regulation (ASPR) was first revised for VE in 1959. Many changes have been made over the years which have served to simplify the language and to increase the contractor's share of savings. There are two basic types of savings that can be shared when a VECP is approved and implemented; these are acquisition and collateral savings.

a. <u>Acquisition savings</u> may include savings obtained on the instant contract, future contracts, concurrent contracts, and annual acquisition savings.

(1) The instant contract is the contract under which the VECP is submitted. If the VECP is accepted and implemented on items delivered on the instant contract, the contractor will receive a share of the net savings after the contractor costs and Government costs have been taken into consideration. Therefore, it is important that both the contractor and the Government identify and record, for audit purposes, the costs incurred in the development and implementation of the VECP. See paragraph 2 for detailed explanations of allowable contractor and Government costs.

(2) Concurrent contracts are those contracts which the submitting contractor and/or other contractors have for essentially the same item from the same contracting office which accepted your VECP. If the contracting office directs the VECP be incorporated into those other contracts, the submitting contractor will receive a percent of the net savings which are obtained on those contracts. The instant contract total price will then be increased by this amount.

(3) Future contract savings can be shared in one of two ways.

IOCP 5-4

(a) If the buying activity can predict with some degree of certainty the number of these items to be procured within the contractor's royalty period, and this number is not classified, the 'lump-sum' method of settlement can be used if the contractor and the buying activity so agree. The contract modification incorporating the VECP will specify the anticipated future procurement quantity. The cost savings per unit are then multiplied by the expected 3 year procurement quantity and the instant contract is increased by a percentage of that amount.

(b) The second method of sharing on future contracts is known as the 'royalty' method. Here, the number of additional units to be procured is unknown. Under this method, you will receive a percent of the savings which the procuring office obtained by incorporating your VECP on its future contract. This sharing applies to items scheduled for delivery within 3 years after acceptance of the first item which incorporates the VECP. If the contractor has a long-range contract that will run more than 3 years after this first item is accepted, the sharing period will cover all items accepted prior to the originally scheduled completion date of that contract. It is the contractor s responsibility to maintain records for up to 3 years after the date the first unit incorporating the VECP is accepted. Whenever the procuring office who approved the VECP issues a new contract during this period for essentially the same item, and the VECP is incorporated into the contractual documents, the submitting contractor should submit a request for royalty payment to the procuring activity involved. Payment will be made pursuant to the contract under which the VECP was originally accepted. Normally, the savings per unit that were calculated for the original contract will be multiplied by the number of units scheduled for delivery prior to expiration of the sharing period. If the VECP is submitted during the design or limited production phase, and the FAR VE clause is modified as provided for in the introductory paragraph for 52.248-1, future sharing is based on that quantity of units equal to the highest 36 consecutive months of anticipated production as based on the Five Year Defense Plan (FYDP) or other planning documentation existing when the VECP is accepted.

b. <u>Collateral Savings.</u>

(1) Collateral savings are those measurable net reductions in costs of operation, maintenance, logistics support, shipping costs, or GFP, when these savings are a result of an accepted VECP. In some situations, a VECP might increase the acquisition cost of an item but result in substantial collateral savings. For collateral savings, the contractor is entitled to 20 percent of the savings which the purchasing office estimates will be realized during a typical year. However, the contractor s share shall not exceed

$100,000 or the value of the instant contract, whichever is greater. The amount of collateral savings is determined by the procuring activity and its determination is not subject to the 'disputes' clause of a contract.

(2) The current FAR VE Clause provides for three methods of financial settlement of approved VECPs:

(a) The alternate no-cost settlement method.

(b) The lump-sum payment method.

(c) The royalty method.

The applicability of these methods is discussed in paragraph 8.

7. Responsibilities.

a. Action Office (VE Office).

(1) Review VECP for completeness and contractual compliance.

(2) Review the contractor s cost analysis to determine potential economic benefits.

(3) Review Defense Contract Management Area Operations (DCMAO)/ Contracting Officer Representative (COR) comments to evaluate potential economic and technical benefits.

(4) Coordinate critical milestones with the Configuration Control Manager.

(5) Participate in the Configuration Control Boards (CCBs).

(6) Verify that all required data are present and that CCB Directive (CCBD) is clear and descriptive.

(7) Prepare approval/disapproval letter including concurrent contracts for PCO signature (see Appendixes C and D).

(8) Support definitization and settlement.

(9) Track and report VECP flow.

b. Configuration Manager (Engineering).

(1) Distribute VECP to CCB members.

(2) Coordinate milestones with VE action officer.

(3) Review VECP upon receipt to ensure all data from submitter is present.

(4) Obtain all data (including the technical, production, procurement, supply and maintenance comments) prior to CCB decision for proper and

complete evaluation.

(5) Hold CCB and make technical decision.

(a) If approved, develop implementation instruction and obtain information required in approved VECPs (Government cost, collateral savings, concurrent contracts, etc.).

(b) If disapproved, justify with detailed explanation.

(6) Forward decision through VE Office (AMSIO-RMV) to PCO.

(7) Initiate change in technical data package (TDP).

c. PCO/Contract Specialist (Procurement)

(1) Review VECP submittal for contractual compliance and impaction overall procurement function.

(2) Review contractor's cost analysis to determine potential economic benefits.

(3) Provide input to CCB.

(4) Notify VECP submitter of decision.

(a) If disapproved, letter of disapproval is sufficient.

(b) If approved, provide letter of approval to expedite notification, and follow with a formal contract modification.

(5) Review the costs/savings data provided by the submitter.

(a) For commercial contractors - forward the data to the Cost and Pricing Division for review to determine accuracy and reasonableness. A review by the Defense Contract Audit Agency (DCAA) may be necessary depending on estimated dollar amount of savings over 3-year period.

(b) For the Army ammunition plant (AAP) contractors - review data for COR comments and DCAA report.

(6) Contact production and/or supply item manager to determine concurrent contracts, future requirements, and availability of funds.

(7) Negotiate and definitize settlement through formal contract modification.

(8) In the case of a royalty settlement, modify the contract to make royalty payments, as necessary.

(9) Make sure VE Office is provided a copy of all actions relating to a VECP.

(10) Inform VE action office of any problems and seek assistance to

resolve.

d. Item Manager(s) provide input to CCB. Input to include:

(1) A list of concurrent contracts for the item and a list of like items which may be affected.

(2) Future requirements for affected item.

(3) An analysis of the effect on annual acquisition savings.

e. Contractor.

(1) Submit the VECP in accordance with the VE clause of the contract.

(2) Implement the VECP and provide date of implementation through PCO for the VE Office.

(3) Submit savings data through the COR/Administrative Contracting Officer (ACO) to the PCO.

(a) Data should include a before and after position on all areas affected by the VECP with applicable cost/saving computation to readily determine unit savings.

(b) Provide supporting data, e.g., invoice, etc.

(c) Provide a certificate of current cost or pricing data as appropriate in accordance with FAR 15-804.

(4) Keep record of how many items use the VECP.

(5) Provide good faith negotiation.

8. <u>Determining the Appropriate Settlement.</u>

a. No-Cost Settlement.

(1) Details.

(a) Contractor keeps all savings from the instant and concurrent contracts.

(b) Government keeps all future, collateral, and concurrent savings.

(c) No money is exchanged.

(d) Can only use if have mutual agreement between both parties.

(e) Is not renegotiable.

(2) When to Use.

(a) Low dollar savings involved.

(b) Savings dollars determinable.

(c) Obligation balance (Government and contractor settlement equate).

(3) Advantages.

(a) Minimum administrative work.

(b) Instant contract can be closed.

(c) No funds transfer.

(4) Disadvantages.

(a) Less precise than lump-sum or royalty settlement.

(b) Is not renegotiable.

b. Lump-sum Settlement.

(1) Details.

(a) Contractor shares in all savings in one modification.

(b) Instant and concurrent savings are based on actual quantity in contract utilizing the VE change.

(c) Future savings are based on projected future quantity.

(d) Collateral savings are based on estimated savings realized over a typical year.

(e) Can use only if there is a mutual agreement between both parties.

(f) Is not renegotiable.

(2) When to Use.

(a) If no-cost settlement is not in the best interest of both parties.

(b) Low dollar savings involved.

(c) When future requirement can be projected with a degree of accuracy.

(d) Funding is available to pay all savings contractor is entitled to in one modification.

(3) Advantages.

(a) Minimize administrative burden.

(b) Instant contract can be closed.

(c) Immediate payment to the contractor for all savings.

(d) More precise than the no-cost settlement.

(4) Disadvantages.

(a) Requires negotiation process.

(b) Is not renegotiable.

(c) Not as precise as royalty settlement.

c. Royalty Settlement.

(1) Details.

(a) Contractor shares in all savings.

(b) Future savings are shared as they occur after the award of a future contract.

(c) Payment of future savings are usually under separate procurement request order numbers. Funding is needed for royalty payment for every unit using the VE change within the sharing period (normally 3 years after acceptance of the first item incorporating the VECP).

(d) Instant contract must remain open and administered during the sharing period to provide royalty payments to the contractor by processing contract modifications.

(e) Is subject to subsequent adjustment.

(2) When to Use.

(a) If no-cost or lump-sum settlement is not in the best interest of both parties.

(b) Cannot project future requirement with any accuracy.

(c) Funding is not available for lump-sum settlement.

(3) Advantages.

(a) More precise than the no-cost or lump-sum settlement.

(b) Subject to subsequent adjustments.

(4) Disadvantages.

(a) Requires negotiation process.

(b) Maximize the administrative burden.

(c) Cannot close instant contract until the sharing period has ended and all royalty payments have been made.

(d) Sharing period does not start until first unit using VE change is accepted by the Government.

(e) Delay payment to the contractor.

9. Negotiating.

a. Negotiating VECPs is somewhat different than negotiating a prime contract or an ECP. The contractor must be able to support the proposal with purchase orders, quotations, actualities, history and, where these documents are not available, by estimates base on good judgement factors. The normal procedure is for the contractor to submit an updated proposal at the start of negotiations which reflects the latest known costs/savings. Then, from this price, look for areas where the cost/savings can be reduced/increased. The VECP savings on the instant contract normally result in a contract decrease for the Government's share of savings. Should you be successful in lowering savings, you also reduce the Government's share, therefore, you may reverse your strategy and look for higher savings than proposed, and if successful, you receive a higher share on the instant contract. We caution, this tool can be to your disadvantage; because if the savings are increased, so should the royalty base for future procurements be increased, and consequently, the contractor receives a larger share on future procurements which may more than offset what the contractor lost on the instant contract. The contractor's proposal must reflect the most accurate quote based on data that is available and negotiate accordingly. In negotiating concurrent contracts, you and the concurrent contractor will negotiate just as you did with the instant contractor except total savings will include cost plus profit or fees (these are excluded in instant contract savings).

b. The Settlement Evaluator Expert System (see Appendix E) was developed for utilization on Government personal computers. This software was developed to aid you in the calculation of savings and the subsequent sharing with contractors of approved VECP actions. It provides you with a printout of

calculations and other meaningful data that you may use during negotiations.

c. Do not, for a minute, think that obtaining a 'fair settlement' at the negotiating table for a VECP is any easier than any other negotiation. Realize that the legalities, court decisions, and financial practices associated with VECPs are different enough from everyday legal, contractual, and financial practices to demand special emphasis. Further, the FAR is subject to considerable interpretation; therefore, settlements can vary considerably, depending on the precise situation.

10. Contract Modification Requirements.

a. No-Cost Modification (see Appendix F).

(1) State authority under block 13; FAR 52.248.

(2) State purpose and cross reference.

(3) Result in no cost to either party.

(4) State firm, full, and final settlement of the VECP (not renegotiable).

(5) Bilateral - mutual agreement.

b. Lump-sum Modification (see Appendix G).

(1) State authority under block 13, FAR 52.248.

(2) State purpose and cross reference.

(3) Include data and supporting calculation (gross unit savings, number of items affected, etc.).

(4) Indicate net dollar change.

(5) Address all four types of savings.

(6) State firm, full, and final settlement of the VECP (not renegotiable).

(7) Must be bilateral with mutual agreement.

c. Royalty Modification (see Appendix H).

(1) State authority under block 13, FAR 52.248.

(2) State purpose and cross reference.

(3) Include data and supporting calculation.

(4) Indicate known dollar effect.

(5) Address all four types of savings.

(6) State national stock number (NSN).

(7) Address contractor and Government cost.

(8) State unit royalty - contractor and Government share.

(9) State specific date for the royalty period, i.e., 5 Nov 90 through 4 Nov 93.

11. Key Points to Remember.

a. Information Provided by the CCB Directive.

(1) Type of approval: As submitted, in part, and/or with modification.

(2) Implementing document: The VECP itself, Notice of Revision

(NOR), and/or revised drawings.

(3) Financial impact: Cost reducing only or mandatory ceiling price.

(4) Government cost.

(5) Collateral savings.

(6) Concurrent contractors.

b. Incorporating Document - Draft letter provided by VE Office or Modification initiated by Procurement.

(1) Cross reference documents - state contractor's VECP number and engineering assigned number.

(2) Specify type of approval - approved as modified, approved as mandatory, or alternate change.

(3) List the implementing document - NOR, etc.

(4) Address financial impact.

(5) Request updated costs/savings data as necessary.

(6) Request all data be forwarded through the ACO or COR staff to the PCO.

c. Negotiation/Definitization.

(1) Only use the VE clause in your contract.

(2) Consider every angle to minimize administrative burden.

(3) Address both types of savings (acquisition and collateral):

Instant, annual acquisition, concurrent, and future.

(4) Specify type of settlement: No-cost, lump-sum, and royalty.

(5) If the settlement type is no-cost or lump-sum, the modification must state that the settlement is firm, full, and final for the VECP.

(6) If the settlement is a royalty settlement, the modification must include: The NSN, unit royalty for both contractor and Government, state specific dates for the royalty period, i.e., 5 Nov 90 through 4 Nov 93, and address Government and contractor cost.

(7) The contractor's profit or fee shall be excluded when calculating the net savings on instant and future contracts.

d. Obtaining Funding to Pay.

(1) Instant Contract Savings: This amount is already in the

contract due to the higher price previously paid and savings due to implementation of the VECP.

(2) Concurrent Contract Savings: This money comes from the concurrent contractor implementing the VECP. The concurrent contract is reduced by the total amount of savings and these savings are then shared with the VECP submitter.

(3) Future Contract Savings: This money is obtained from the appropriate bulk funding of the benefitting production item.

(4) Collateral Savings: This money is obtained from the responsible office benefitting from implementation of the change (transportation, property, etc.).

12. The 'Preliminary' VECP: What Is It? A preliminary VECP is a vehicle for submitting an idea to the Government Procurement Office which might result in the submission of a 'full-blown' VECP. A preliminary VECP can be submitted to get an idea on whether or not a potential VECP should be pursued. This action would be beneficial if the development of the VECP would require risking significant funds. The contractor would notify the PCO that he believes a certain item showed potential for application for VE, indicating the approximate costs for developing the VECP, and the estimated savings which might be achieved. The preliminary VECP is essentially processed the same as an official VECP. A CCB meets and renders a decision on the merits of a preliminary VECP. This decision is forwarded to the PCO through the VE Office. The VE Office drafts a notification letter to the contractor (see Appendix I) for the PCO to send. The contractor should be aware that an indication from the Procurement Office that the idea has merit does not guarantee that a formal VECP will be accepted. As with any VECP, there is the possibility that it might be rejected, and there is some element of risk involved. However, the idea behind preliminary VECPs is to reduce this risk so the contractor does not expend significant funds on ideas that have little or no chance of being accepted. The submission of a preliminary VECP does not establish any rights for the contractor to the VE idea; only an official VECP submission can establish rights for sharing purposes.

13. What if the contractor has a VE idea but does not have VE provisions in his contract? If the PCO desires, the VE clause can be added to the contract by processing a contract modification.

14. What if the contractor has a VE idea but does not have a contract? Previously, ASPR 1-1708 made specific provisions for submission of cost reduction proposals with regard to supplies or services for which the proposer did not have a current contract. These proposals were termed unsolicited VEPs (UVEPs). However, with the publication of Defense Procurement Circular #76-9, 30 August 1977, the use of UVEPs was eliminated. Likewise, they are not permitted under the FAR.

15. The 'VEP': What Is It? A VEP is a specific proposal developed internally by Government personnel for total value improvement through the use of VE techniques; however, the term also applies to changes submitted by contractors hired to do VE with no sharing of savings provision (local exception: contractor originated actions from IOC contractor operated plants, which do not require a change to the contract, are referred to as VEPs).

16. Sample Illustrations.

a. Appendix J provides a sample of a settlement for VECPs incorporated into Technical Data Packages (TDPs) but resulted in no immediate savings.

b. Appendix K provides a sample of a settlement for VECPs incorporated into TDPs with no identifiable savings.

c. Appendix L provides a sample of a corrective modification for a VECP initially settled incorrectly.

d. Appendix M provides a sample of a modification providing royalty payment(s).

APPENDIX A

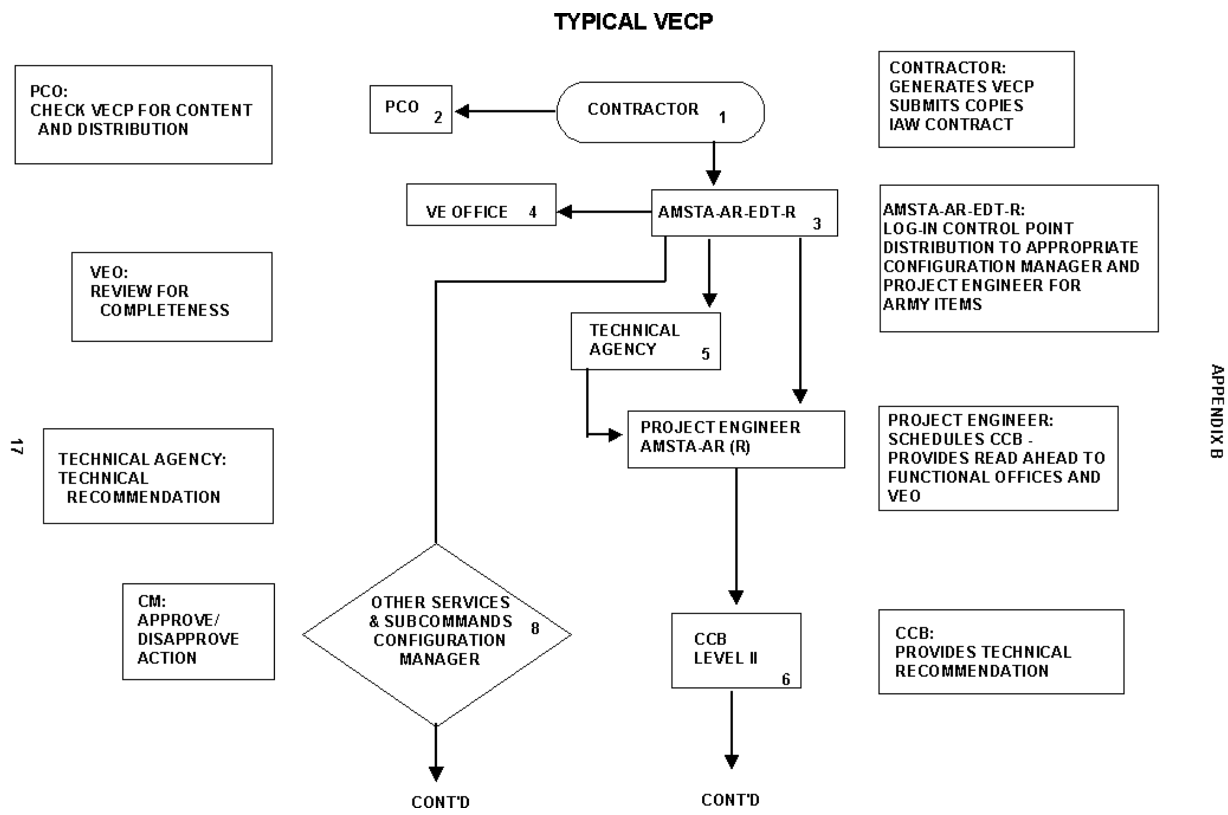
ABBREVIATIONS

ACO	Administrative Contracting Officer
ASPR	Armed Services Procurement Regulation
CCB	Configuration Control Board
CM	Configuration Management
COR	Contracting Officer Representative
DA	Department of the Army
DCMAO	Defense Contract Management Area Operations
DCASPRO	Defense Contract Administration Services Plant Representative Office
DLA	Defense Logistics Agency
DOD	Department of Defense
ECP	Engineering Change Proposal
FAR	Federal Acquisition Regulation
FFP	Firm Fixed Price
FYDP	Five Year Defense Program
GFP	Government Furnished Property
ICS	Instant Contract Savings

APPENDIX A (continued)

IOC	U.S. Army Industrial Operations Command
MIL-STD	Military Standard
PCO	Procuring Contracting Officer
Prime	Prime Contractor
TDP	Technical Data Package
VE	Value Engineering
VEP	Value Engineering Proposal
VECP	Value Engineering Change Proposal
VEI	Value Engineering Incentive
VEPM	Value Engineering Program Manager
VEPR	Value Engineering Program Requirement

APPENDIX B
(VECP Flowchart)



Appendix C

VALUE ENGINEERING CHANGE PROPOSAL
(Sample Approval Letter)

Ammunition Directorate

Contractor Name
and
Address

Gentlemen:

Reference your Value Engineering Change Proposal (VECP) No. 0833-V-0001 submitted on contract DAAA09-88-C-XXXX. The VECP proposed to change paragraph 3.8, Homogeneity of Material from the presence of spots 1/16 or larger diameter to the presence of spots 1/4 inch or larger shall indicate non-homogeneity and the top and bottom halves shall not exhibit non-homogeneities including cracks, splits, cuts, tears, rips, or holes when tested as specified in 4.5.9.

The referenced VECP has been reviewed/evaluated and is hereby approved, at no increase in cost, for incorporation into your contract. It should be noted that this letter constitutes a modification to your contract. A formal modification incorporating the referenced VECP will be issued as soon as possible. The enclosed signed DD 1693, No. M0J9009 and Notice of Revision No. M0J9009 (1 page) reflect the approved change.

Your cost savings proposal has been determined to be sufficient for negotiation purposes. It is recommended that you update this proposal as necessary to keep it current, accurate, and complete. The contracting officer or his/her representative will be contacting a representative of your company to schedule negotiations on the referenced VECP as soon as possible.

You are also reminded that the Federal Acquisition Regulation requires that you maintain, and provide to the Government, adequate records to support identification of the first delivered units to which this VECP applies.

Sincerely,

Enclosures

Copy Furnished:
DCMAO, Santa Ana

(Internal Copies)
AMSIO-RMV(916012)
AMSTA-AR-EDT-R(M0J9009)
AMSTA-AR

APPENDIX D

VALUE ENGINEERING CHANGE PROPOSAL
(Sample Disapproval Letter)

Ammunition Directorate

Contractor Name
and
Address

Gentlemen:

Reference your Value Engineering Change Proposal (VECP) No. 0638-E-0001, submitted on contract DAAA09-86-C-XXXX. The VECP proposes to eliminate ASTM D 2651, Method C, paragraph 10.3 or alternate cleaning of newly machine liners, drawing notes 11 and 12 for liner F/M Warhead.

The referenced VECP has been reviewed/evaluated and is hereby disapproved. The rationale for this decision is based upon the following: The reviewing agency was informed that one of the Army ammunition plants (AAP) is experiencing problems when processing similar liners for another program which are not cleaned as required by the notes which you propose deleting. The cause of the problem involved is that estane, an adhesive bonding agent which is also in the TOW assembly to assist in the explosive bonding and pressing operation, does not properly adhere to the liner surface. This has required the AAP to add a separate cleaning operation to the liners prior to application of the estane. In view of this problem, the VECP was disapproved.

Sincerely,

Copy Furnished:

DCASMA, Cleveland

(Internal Copies)
AMSIO-RMV (916116)
AMSTA-AR-EDT-R(M0J9009)
AMSTA-AR

APPENDIX E

VALUE ENGINEERING CHANGE PROPOSAL

VECP EVALUATOR

This program is designed to assist you, the contracting officer or specialist, in settling VECP claims under the existing FAR/DAR of 1984. Taking your input, this program will calculate the appropriate settlement and print out the calculations.

APPENDIX F

Sample of No-Cost Modification

It is hereby mutually agreed that it would be in the best financial interest of both the contractor and the Government to negotiate VECP # _______________ at no cost to either party. The VECP was incorporated into the contract via __________________ dated ______________________. The contractor shall be entitled to keep all savings under this instant contract and all savings under any other concurrent contracts which he (the contractor) may have. In return, the contractor hereby agrees to waive all rights to any share of savings on concurrent contracts held by other contractors, all savings on future contracts, and all collateral savings. This, then, constitutes a firm, full, and final settlement of any and all financial obligations of the Government resulting from the Government's acceptance and use of the aforementioned VECP.

Appendix G

VALUE ENGINEERING CHANGE PROPOSAL LUMP SUM MODIFICATION

Block 13

(c) ____ Value Engineering Clause of this contract, DAR 7-104.44(a)/FAR 52.248.1 dated __________.

Block 14

The purpose of this modification is to set forth a mutual agreement for a lump sum settlement for an equitable adjustment resulting from the Government's acceptance, and incorporation into this contract of the contractor's Value Engineering Change Proposal (VECP) No. __________ dated __________. The VECP was incorporated into this contract by incorporating the VECP itself/NORs No. __________/ERR Package No. __________ by letter whose effective date was __________.

1. As a basis for negotiating this modification, the following data are mutually agreed to be valid to the best of the knowledge of both parties:

(a) Number of items affected in the instant contract __________

(b) Gross Unit Savings __________

(c) Contractor Development & Implementation Costs __________

(d) Government Costs __________

(e) Average Annual Collateral Savings __________

(f) Concurrent Contracts into which the VECP has been incorporated and resultant savings in each:

CONTRACT	AFFECTED QUANTITY	UNIT SAVINGS	IMP COSTS	NET SAVINGS

CONCURRENT TOTAL NET SAVINGS $__________

(g) Number of Units Projected for Procurement During the Future Contract Sharing Period. __________

AMSIO Form 5-2, 1 Jan 96

Replaces AMSMC Form 1182, 1 Jun 85, which may not be used.

APPENDIX G (continued)

2. Applying the above data as directed by the applicable Value Engineering provisions of this contract results in the following calculated factors:

(a)	**Gross Instant Contract Savings (1a X 1b)**	**$__________**
(b)	**Instant Contract Savings (2a - 1c)**	**$__________**
(c)	**Net Instant Contract Savings (2b - 1d)**	**$__________**
(d)	**Government Share of Net Instant Acquisition Savings (2c X *)**	**$__________**
(e)	**Contractor Share of Net Instant Acquisition Savings (2c X *)**	**$__________**
(f)	**Contractor s Share of Average Annual Collateral Savings (1e X 20%)**	**$__________**
(g)	**Government s Share of Average Annual Collateral Savings (1e X 80%)**	**$__________**
(h)	**Contractor s Share of Concurrent Contract(s) Savings (1f X *)**	**$__________**
(i)	**Government s Share of Concurrent Contract(s) Savings (1f X *)**	
(j)	**Future Contract Unit Cost Reduction (1b)**	**$__________**
(k)	**Contractor s Share of Future Contract Savings (Lump Sum) (1b X 1g X *)**	**$__________**
(l)	**Not Used.**	
(m)	**Adjustment in Contract Price (-2b + 2e + 2f + 2h + 2k)**	**$__________**
(n)	**Based on the above data, the instant contract price is hereby decreased/increased by the net change under 2m**	**$__________**

3. This modification constitutes a firm, full, and final settlement of the VECP.

***Apply ratio in accordance with the applicable DAR/FAR clause.**

(Reverse of AMSIO Form 5-2)

APPENDIX H
VALUE ENGINEERING CHANGE PROPOSAL ROYALTY MODIFICATION

Block 13

(c) Value Engineering (VE) Clause of this Contract, DAR 7-104.44(a)/FAR 52.248.1, dated __________.

Block 14

The purpose of this modification is to set forth a mutual agreement for a royalty settlement for an equitable adjustment resulting from the Government's acceptance, and incorporation into this contract, of the contractor's Value Engineering Change Proposal (VECP) No. __________ dated __________. The VECP was incorporated into this contract by incorporating the VECP itself/NORs No. __________/ERR package __________ by letter whose effective date was __________.

1. As a basis for negotiating this modification, the following data are mutually agreed to be valid to the best of the knowledge of both parties:

(a) Date of acceptance by the Government of the first item incorporating the VECP __________

(b) Originally scheduled delivery date of the last affected item under the instant contract __________

(c) Number of items affected in the instant contract __________

(d) Gross Unit Savings $__________

(e) Contractor Development & Implementation Costs $__________

(f) Government Costs $__________

(g) Average Annual Collateral Savings $__________

(h) Concurrent Contracts into which the VECP has been incorporated and resultant savings in each:

CONTACT	AFFECTED QUANTITY	UNIT SAVINGS	IMP COSTS	NET SAVINGS

CONCURRENT TOTAL NET SAVINGS $__________

AMSIO Form 5-3, 1 Jan 96 Replaces AMSMC Form 1183, 1 Jun 85, which may not be used.

APPENDIX H (continued)

(i) Known future contracts (and options to instant contract, etc.) into which the VECP has been incorporated and the number of units scheduled for delivery during the royalty period:

CONTRACT	NUMBER OF UNITS UNDER ROYALTY
TOTAL UNITS UNDER ROYALTY	__________

2. Applying the above data as directed by the applicable VE provisions of this contract results in the following calculated factors:

(a) Gross Instant Contract Savings (1c X 1d) $__________

(b) Instant Contract Savings (2a - 1e) $__________

(c) Net Instant Acquisition Savings (2b - 1f) $__________

(d) Government's Share of Net Instant Acquisition Savings (2c X *) $__________

(e) Contractor's Share of Net Instant Acquisition Savings (2c X *) $__________

(f) Contractor's Share of Average Annual Collateral Savings (1g X 20%) $__________

(g) Government's Share of Average Annual Collateral Savings (1g X 80%) $__________

(h) Contractor's Share of Concurrent Contract(s) Savings (1h X *) $__________

(i) Government's Share of Concurrent Contract(s) Savings (1h X *) $__________

(j) Future Contract Unit Cost Reduction (1d) $__________

(k) Contractor's Unit Royalty (2j X *) $__________

(l) Not Used.

(m) Government's Unit Royalty (2j X *) $__________

(n) Contractor's Share of Known Future Contract Savings (1i X 2k) $__________

(o) Government's Share of Know Future Contract Savings (1i X 2k) $__________

(p) Adjustment in Total Contract Price (-2b + 2e + 2f + 2h + 2n) $__________

(q) Royalty Period __________ through __________

(r) Applicable NSN(s) __________________________________

3. Based on the above data, the instant contract price is hereby decreased/increased by the net change under 2p $__________

*Apply ratio in accordance with the applicable DAR/FAR clause.

(Reverse of AMSIO Form 5-3)

APPENDIX I

VALUE ENGINEERING
(Sample Preliminary Letter)

Ammunition Directorate

Contractor Name
and
Address

Gentlemen:

Reference your Preliminary Value Engineering Change Proposal (PVECP) No. 0008-E-0017 which was submitted on contract DAAA09-81-G-0010/0008.

Preliminary VECP 0008-E-0017 (A1N1003) has been evaluated and appears to have merit, as modified, only on a preliminary level.

Should you wish to pursue this VECP, the conditions contained in enclosure 1 are required for consideration of the formal VECP. In addition, it should be understood that any effort on your part will be at no cost to the Government, and that there is no assurance the formal VECP will be approved.

Sincerely,

Enclosure

COPY FURNISHED:

Cdr, DCASPRO
ATTN: DCRS-RHCO

(Internal Office Copies)
AMSIO-LEW-F(A1N1003)
AMSIO-LET-M(A1N1003)
AMSIO-RMV(91P015)

APPENDIX J

SAMPLE OF SETTLEMENT OF VECP INCORPORATED INTO TDP BUT NO IMMEDIATE SAVINGS

1. Value Engineering Change Proposals (VECPs) No. ________________ and ____________ were incorporated by the Procuring Contracting Officer's letter dated _____________________ and _________________________.

2. This supplemental agreement between the contractor and the Government regarding VECP ________________ and VECP __________________, in the amount of $_______________ and $_______________ respectively, provides for complete payment of the contractor's costs of developing those VECPs.

3. No instant, concurrent, or collateral savings were realized from the incorporation of these VECPs into the Technical Data Package. Therefore, there are no such savings to be shared between the contractor and the Government.

4. The contractor further agrees that the Government will receive all future savings realized as a result of the use of the aforementioned VECPs.

5. Consequently, the contract dollar amount is increased by $_______________ from $_______________ to $_______________.

6. The contractor hereby agrees that the above constitutes a firm, final, and complete settlement of any and all claims, demands, or causes of action either party has or may have against the other arising out of, or related to, the aforementioned VECPs.

Appendix K

SAMPLE SETTLEMENT FOR VECP INCORPORATED INTO TDP WITH NO IDENTIFIABLE SAVINGS

1. Value Engineering Change Proposal (VECP) No. __________. This VECP was incorporated by the procuring contracting officer's letter dated __________, subject: Army Ammunition Plant (AAP) Value Engineering Change Proposal (VECP) No. __________.

2. It is hereby mutually agreed that there are no identifiable instant, concurrent, future, or collateral savings to be realized from the implementation of this VECP, and therefore, no savings to be shared between the Government and the contractor. Consequently, the Government has no financial obligation as a result of the Government's acceptance and use thereof. This then constitutes final and complete settlement.

Appendix L

CORRECTIVE MODIFICATION SETTLED INCORRECTLY

Block 13(c) of SF 30

Authority Value Engineering Clause of the Contract FAR

Block 14 of SF 30

1. The purpose of this modification is to further clarify equitable adjustment provisions as set forth under modification P00075 resulting from the Government's acceptance, and incorporation into this contract of the contractor's Value Engineering Change Proposal (VECP) No. 3003-19 dated 2 Apr 89 and VECP No. 3003-23 for project 5782500 dated 21 Jun 89.

2. As the basis for providing clarification of final payment of $7,456.32 under VECP No. 3003-19 and final payment of $11,304.00 under VECP No. 3003-23 as set forth on page 8 of modification P00075, the following data is mutually agreed to be valid to the best of the knowledge of both parties:

B. VECP No. 3003-23:

(1)	Number of items affected in the instant contract	14
(2)	Gross Unit Savings	$ 7,025.57
(3)	Contractor Development & Implementation Costs	$ NONE
(4)	Government Cost: (Expenditures against VECP 3003-01)	$23,000.00
(5)	Average Annual Collateral Savings	NONE
(6)	Concurrent Contract(s)	NONE
(7)	Future Contract(s)	NONE

Applying the data under B above and the computations listed below, the contractor's share of savings for subject VECP are as follows:

a.	Gross Instant Contract Savings (B1 X B2)	$ 98,358.00
b.	Instant Contract Savings (a - (B3 + B4)	$ 75,358.00
c.	Net Instant Contract Unit Cost Reductions (b - B1)	$ 5,382.71
d.	Contractor's Share of ICS (15% X b)	$ 11,304.00
e.	Government's Share of ICS (85% X b)	$ 64,054.00
f.	Contractor's Share of Average Annual Collateral	NONE
g.	Contractor's Share of Concurrent Contracts	NONE
h.	Contractor's Share of Future Contracts	NONE

This modification (Lump Sum) constitutes a firm, full, and final settlement of VECP No. 3003-23. *Apply ratio in accordance with the applicable FAR clause.